

Examples of Deficient and Entity-Specific MD&A Disclosure

Example of Deficient Disclosure – Results of operations

Revenue increased from \$900,000 to \$1,080,000, a 20% increase. Gross margin increased from \$400,000 to \$408,000, a 2% increase.

Example of Entity-Specific Disclosure – Results of operations

Revenue increased by \$180,000 during the period due to several factors:

- Increased sales volume of Product A – \$60,000;
- Decreased unit price of Product A – (\$30,000); and
- The introduction of a new product during the quarter, Product B – \$150,000

In late 2009, we anticipated increased market competition for Product A and reduced the selling price to encourage the sale of Product A. The discounts on Product A resulted in reduced gross margin. In the current quarter, we expect to continue discounting Product A and expect the gross margin to improve as Product B replaces Product A.

Example of Deficient Disclosure – Results of operations

In fiscal 2009, the Company completed the first phase of its drilling program on the XYZ Lake property and the results suggested the existence of significant gold mineralization on the property. Additional drilling is necessary to fully test the potential of this property.

Example of Entity-Specific Disclosure – Results of operations

In fiscal 2009, the Company completed the first phase of its drilling program on the XYZ Lake property and the results suggested the existence of significant gold mineralization on the property. In the second half of 2010, the Company plans to complete additional 20 drill holes and further geological mapping. The Company has spent \$1,000,000 to date and will require \$2,000,000 to complete the additional work in 2010. The Company intends to obtain the funds from its recently negotiated undrawn revolving credit facility, which has an authorized limit of \$3,000,000.

Example of Deficient Disclosure – Related party transactions

During the year, the Company paid \$200,000 in interest on a loan payable to a majority shareholder.

Example of Entity-Specific Disclosure – Related party transactions

During the year, the Company paid \$200,000 in interest on a loan of \$2,000,000 received from the CEO, who is a majority shareholder. The unsecured loan bears interest at 10% per

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annum, and matures in five years with an option by the Company to extinguish the debt at any time without penalty. The Company entered into this related party transaction because alternate sources of financing were unavailable due to the Company's limited operating history, lack of collateral and limited access to public financing due to current global financial conditions

Example of Deficient Disclosure – Critical accounting estimates (asset retirement obligation)

Management calculates the asset retirement obligation based on estimated costs to abandon and reclaim its net ownership interest in all wells and facilities and the estimated timing of the costs to be incurred in future periods. The fair value estimate is capitalized to PP&E as part of the cost of the related asset and amortized over its useful life.

Example of Entity-Specific Disclosure – Critical accounting estimates (asset retirement obligation)

The asset retirement obligation is estimated based on existing laws, contracts or other policies and current technology and conditions. The fair value of the obligation is based on estimated future costs for abandonment and reclamation, discounted at a credit-adjusted risk-free rate. The costs are included in property, plant and equipment and amortized over their useful life. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings and for revisions to the estimated future cash flows. The estimates or assumptions required to calculate asset retirement obligation includes, among other items, abandonment and reclamation amounts, inflation rates, credit-adjusted discount rates and timing of retirement of assets. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. The following significant assumptions were assumed for the purpose of estimating asset retirement obligation:

	<u>2009</u>	<u>2008</u>
Undiscounted abandonment costs (\$000s)	\$60,640	\$52,960
Credit adjusted risk-free rate	6.50%	6.80%
Inflation rate	2%	2.20%
Average years to reclamation	11	12